

Personal Retirement Savings Accounts (PRSAs)

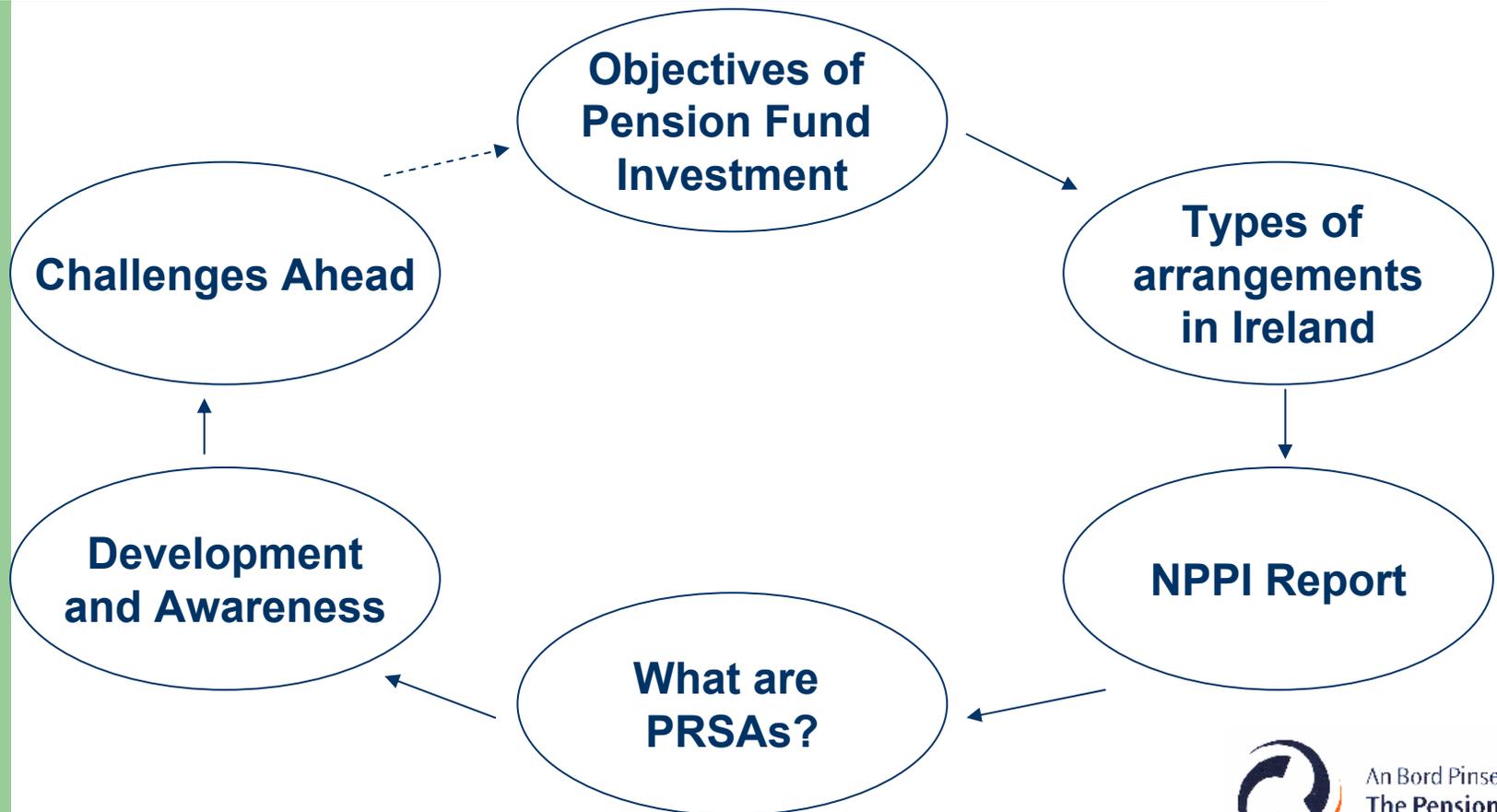
– Individual Pension Investment Vehicles

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Overview of What Will Be Covered?



Objectives of Pension Fund Investment

- **Commitment of funds over long period of time**
- **Reaction to changes in economic or market environment**
- **Match the requirement for growth, income and security**
- **Optimisation of investment returns**
- **Generate a return for a clearly defined purpose**



Types of Pension Scheme Arrangements in Ireland - 31 December 2003

	<u>Scheme</u>	<u>Members</u>
● Occupational Pension Schemes		
– Defined Benefit Schemes	1,693	483,031
– Defined Contribution Schemes	110,972	241,302
● Retirement Annuity Contracts (RACs)		
– Personal Pensions	N/A	25,000?
● Personal Retirement Savings Accounts (PRSAs)		
– Personal Pensions	N/A	19,022
	Total	<u>768,355</u>

HALF OF THE WORKING POPULATION HAVE PRIVATE PENSION COVERAGE

National Pensions Policy Initiative Report (NPPI)

- National pensions consultation and research process from 1996 – 1998
- The Board’s report entitled “Securing Retirement Income” published in 1998 recommended a pension reform package
- Aims were to extend coverage and improve adequacy balanced against cost competitiveness and employment needs
- Major issues in formulating future strategy were:
 - Future demographic “time-bomb”
 - Severe financing difficulties due to demographic pressures
- NPPI recommendations implemented through the National Pensions Reserve Fund Act, 2000 and the Pensions (Amendment) Act, 2002



What is a Personal Retirement Savings Account (PRSA)?

- An investment vehicle used for long-term retirement provision
- Available to everybody e.g. employees, self-employed, homemakers, carers, unemployed or any other category of person
- Designed to be flexible, portable and transparent
- A contract between an individual and an authorised PRSA provider in the form of an investment account
- Benefits may be drawn in a flexible manner from age 60
- Two types of PRSA
 - Standard PRSA
 - Non-Standard PRSA



PRSA Providers

- Who are PRSA providers?
 - **An investment business firm**
 - **An insurance company**
 - **A credit institution**

which produces, markets or sells PRSA products

- Prudential supervision of providers is not Board responsibility
- Product approval is a joint process between the Pensions Board and the Revenue Commissioners
- Contractual relationships and fees
- Decision on product approval to be given within 3 months
- Ongoing supervision and monitoring of approved products is the responsibility of the Board and the Revenue Commissioners
- First PRSA products approved on 24 February 2003



Characteristics of all PRSAs

- **Product approval jointly by the Pensions Board and the Revenue Commissioners**
- **Charges**
 - Not expressed in cash terms
 - % of contributions and/or value of assets
- **No charge/penalty on transfers from another PRSA provider or pension arrangement**
- **No charge on termination of contributions or suspension/recommencement of contributions**
- **Disclosure of Information**
 - Preliminary Disclosure Certificate (PDC)
 - Statement of Reasonable Projection (SRP)
 - Statement of Account
 - Investment Report
- **Default Investment Strategy**



Characteristics of a Standard PRSA

- **Maximum charges**
 - 5% of contribution *and/or*
 - 1% of value of assets
- **Investment only in “pooled funds” which means –**
 - Collective Investment Schemes *or*
 - Internal linked fund via a contract of insurance
- **Employer mandatory access since 15 September 2003**
 - Access to an “excluded employee” to a least one Standard PRSA
- **Marketing cannot be dependent on purchase of any other product**
- **Regular and timely information**
- **Default Investment Strategy**



Characteristics of a Non-Standard PRSA

- **No cap on level of charges**
- **Greater investment choice**
- **Not subject to employer mandatory access requirement**
- **May be marketed together with other investment products**
- **Regular and timely information**
- **Default Investment Strategy**



Investment Choices

- **Default Investment Strategy which applies to all PRSAs:**
 - May only invest in ‘pooled funds’
 - Is compiled under guidance of Society of Actuaries in Ireland
 - Sets out purpose of savings
 - Prohibits contributor from making investment decisions
 - Includes the profile of the contributors
 - Is reviewed periodically by the Provider and at least every 5 years
 - Is signed-off by the Provider’s appointed PRSA actuary
 - Is implemented for the contributor unless he/she indicates otherwise in writing to the Provider
- **‘Pooled Funds’ which must have:**
 - Liquidity
 - Diversification
 - Unit price frequency and availability
 - Charges that are readily identifiable
 - Equity among unit holders
- **Standard PRSAs may only invest in ‘pooled funds’**



Investment – Non-Standard PRSA V Standard PRSA

- **Non-Standard PRSA may offer wider investment choice by:**
 - Increased number of funds in the product
 - May include guarantee or bonus funds
- **Default Investment Strategy in Non-Standard PRSA is an unguaranteed fund**
- **Non-Standard PRSAs may offer the investor higher or lower risk profiles**
- **With no cap on charges greater product innovation may be offered**
- **With no cap on charges greater variability on charges may be offered**



Monitoring PRSA Development

- Quarterly National Household Survey 2002 showed 50.7% of population had supplementary pension coverage
- PRSA providers required to submit detailed quarterly returns/reports to Pensions Board

- Returns to date show:

	<u>30 June '03</u>	<u>30 Sept. '03</u>	<u>31 Dec '03</u>
No. of Contracts	2,550	6,707	19,022
Assets	€1.4m	€5.3m	€41m

- Statutory review to take place in September 2006
- National Pensions Awareness Campaign (NPAC)



National Pensions Awareness Campaign (NPAC)

- Allocation of €500k to carry out an awareness campaign in 2nd half of 2003
- Project team devised an awareness strategy to use the funds
- Pensions Board produced 3 booklets for high volume circulation
- National Pensions Awareness Week focused on key sectors of society with low pension coverage
- Strong focus on radio adverts, plasma screen and media print to inform people of the need for pension provision

“Think about tomorrow. Today”



Challenges Ahead

- NPAC success in increasing awareness needs to be translated into increased coverage
- Steady upward trend in number of PRSA contracts needs to continue up to the review due in 2006
- People have to be educated more of the need to provide for retirement at an early age
- Those who have pension provision need to look closely at the adequacy level of retirement income
- PRSAs – Can they diffuse the “Time-Bomb”??

